1995 Annual Report 1996

Agriculture
Financial Services
Corporation

Agriculture
Financial Services
Corporation

Mission Statement

We help customers in the agriculture and food industry fulfill their business goals by offering unique financial services.

1995-96 BOARD OF DIRECTORS

Robert Conibear, Donalda

Aaron Falkenberg, Sherwood Park

Robert Hymas, Strathmore

Jack Iwabuchi, Fort Saskatchewan

Bernard Kotelko, Vegreville

John Krall, Nampa

Judy Pimm, Grimshaw

Robert A. Splane, Ardrossan

Jerry Thacker, Burdett

Harold Thornton, Chairman, Calgary

EXECUTIVE OFFICERS

Ray Block,
Vice President, Insurance Operations

Andrew Church,
Vice-President, Lending Operations

Rick McConnell,
Vice-President, Research and Program Development

Dave Schurman, C.A.,
Vice-President, Finance and Administration

Robert A. Splane,
President and Managing Director

Letter of Transmittal

August 15, 1996

The Honourable Walter Paszkowski
Minister of Agriculture, Food and Rural Development
Province of Alberta
208 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the second annual report of the Agriculture Financial Services Corporation.

As required by Section 14 of the Agriculture Financial Services Act (Statutes of Alberta 1993, Chapter A-12.5) the report contains a summary of the transactions and affairs of the Corporation and its revenues and the application of its expenditures for the fiscal year ended March 31, 1996. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expenditure and surplus and a statement of change in financial position.

Yours truly,

H P Thornton

Harold Thornton
Chairman of the Board of Directors

Bob Splane
President and Managing Director

Minister's Message

The Agriculture Financial Services Corporation maintains a unique presence in Alberta's agriculture industry. As a provider of crop insurance, hail insurance and farm and agribusiness loans, AFSC leads the way in Canada with a mandate to handle all these financial services. The financial and risk management issues facing farmers today are intertwined, and this corporation services all these areas through one client service window.

AFSC's products and services are vital to this government's vision of the agriculture industry. Both its lending products and specialized insurance help sustain the long-term financial health of Alberta's farm communities.

More than any other time in its history, Alberta's agriculture industry will be faced with a need for capital in the next decade: capital to expand a vibrant and promising processing industry, and capital to create jobs and profitability for Alberta primary and value-added producers. It is an exciting time for Alberta's agrifood industry, as Asian and North American market demands spur Alberta production, research and product development to new heights. The long-term outlook for this industry is extremely positive, with sustained growth expected.

AFSC will play a pivotal role in facilitating the specialized financing that will help this industry to reach its goal of $20 billion in annual value-added sales by 2005. Its portfolio of commercial agribusiness ventures continues to grow, and I expect that the use of creative financial instruments such as Local Opportunity Bonds and alliances with other lenders will enable a record number of businesses to capitalize on the Alberta Advantage.

Crop insurance all across North America faces many challenges and Alberta is no exception. Early in 1996, the National Review of Crop Insurance began, in an effort to clearly define its role in the agriculture safety net package, and respond to the issues of program participation and the rising cost of premiums. Our crop insurance program must remain a strong, reliable risk management tool for Alberta farmers, one that can respond quickly to changing circumstances. Thanks to producers for their ideas and comments during the review, AFSC was able to emphasize this precept to the Review Committee. I look forward to more discussions with our customers on all aspects of crop insurance and lending.

I am pleased with the development of the Farm Income Disaster Program in 1995. This new safety net, in conjunction with crop insurance, provides farmers a measure of stability in a world that is often governed by the vagaries of nature and the uncertainties of global marketing.

Our industry accounts for 110,000 direct and indirect jobs in Alberta, and a remarkable $11 billion in economic activity. It is our job, as the government of Alberta, to help create a climate for business, investment, entrepreneurialism and the sustained expansion of primary and secondary agriculture in this province. The support and services provided by AFSC are an important part of getting the job done.

In closing, I would like to thank retiring Board Chairman Harold Thornton, and members Judy Pimm and John Krall for their significant contributions to the corporation, and to agriculture in Alberta.

Walter Paszkowski

Walter Paszkowski

Minister of Agriculture, Food and Rural Development

Chairman's Message

The Board of Directors of AFSC is pleased to present the 1995-96 annual report.

1995-96 marks the second full year of operations for AFSC. The Board is encouraged by the progress of the new corporation, and would like to recognize the efforts that management and staff have made to make the merger of the former Agricultural Development Corporation (ADC) and Alberta Hail and Crop Insurance Corporation (AHCIC) a reality.

It is the job of the Board of Directors to direct the management of AFSC based on long-term trends and understanding of the agriculture industry. This is a demanding task, for the pace of change in agriculture is rapid. The information and technology explosion, changing international trading patterns and the growth of domestic food processing are huge forces affecting farmers all across Alberta. AFSC's role is to ensure that our customers are equipped to face the risk management challenges presented by today's agriculture.

The corporation follows a business plan that reflects both the Ministry's goals as a whole, and AFSC's operational goals specifically. The directional objectives that we set for management in our five year vision relate to responsible use of taxpayer funding and offering excellent customer service. It is only by balancing the needs of these two stakeholders that AFSC can succeed.

I joined the Board of Directors as Chairman of the then-ADC in 1988. In the seven intervening years, I have witnessed the birth of the planning process at the corporation, a change in senior management, the growth of its agribusiness portfolio, a remarkable turnaround in the performance of its loan portfolio, and most significantly of all, its merger with the former Alberta Hail and Crop Insurance Corporation (AHCIC). These key events have helped make AFSC the leading financial services agency in Canada. Other provinces are watching what we are doing, and are considering similar changes.

I join my colleagues and fellow Board Members Judy Pimm and John Krall in saying good bye to the Board and staff of AFSC. It has been a pleasure to serve with such a dedicated group of people, and to direct the activities of such a strong management and staff. I wish my successor, Bob Splane, every success in his new role as Chairman, and I thank the people of Alberta and the Minister of AFRD for the opportunity to serve them in this capacity.

H P Thornton

Harold Thornton
Chairman

President's Message

During 1995-96, AFSC met the budgetary challenges of government cost control while developing new products and significant new service initiatives.

In 1995-96, AFSC's primary focus was on the following:

- to improve fiscal responsibility,
- to improve customer service and satisfaction,
- to develop alliances that result in improved products and services for our customers, and
- to participate in developing new agriculture finance and risk management policies

These goals were set by the Board of Directors, and reflect the desire of business and government to limit public funding and staff to the most important areas of need. Improving products and services by aligning ourselves with partners, for example, will continue to reduce the costs of doing business, and will effectively serve the public. That is why we have consolidated field offices with the department of Agriculture, Food and Rural Development (AFRD) and the Farm Credit Corporation (FCC), and offer FCC's lending products in conjunction with our own.

The development of the Farm Income Disaster Program (FIDP), which began with extensive industry consultation, is an excellent example of teamwork within AFSC and with the Ministry. This new safety net was designed to provide protection to farmers who experience a disastrous drop in income. It meets our obligations to the international community to be trade-neutral within the spirit of the General Agreement on Tariffs and Trade (GATT). Much of our corporate effort this past year went into this project, and I am pleased with the efficiencies displayed in its development. The parameters of this program will be carefully reviewed based on the applications which are submitted for the 1995 taxation year.

Our other key service initiative was the Point of Sale Transaction (POST) for crop insurance. This year, the introduction of POST as part of our insurance delivery system proved once again that automation does indeed make life simpler for both customers and staff. Customers are able to quickly analyze their choice of insurance coverage, and decide immediately on coverage level and other options. This process previously took weeks and created mounds of paper.

The Lending Operations staff continued to streamline its business processes, making it easier for our clients to do business with us. Loan approvals continue to take place close to the customer, where there is greatest efficiency, and turnaround time on loan decisions has improved.

The overall strength of the portfolio will enable this Division to help the new generation of young farmers get a healthy start in our industry.

Our growing Commercial Lending area continues to develop our alliance with the Farm Credit Corporation (FCC), proving that our combined service can reduce overlap between the two agencies and offer a wider variety of financial products to our customers. The innovative Local Opportunity Bond program also moved closer to becoming a reality this year, as the first application was approved in principle.

This is my last year as President and Managing Director of AFSC. During the period of almost eight years that I had the privilege of serving in this capacity, there was tremendous change in agriculture and in the corporation itself. Significant events during my tenure included the redesign of lending products and their delivery, reduction of loan arrears from over 11 per cent to less than two per cent, elimination of repossessed land inventory, and the merger of the former Agricultural Development Corporation and the Alberta Hail and Crop Insurance Corporation, which created AFSC. These initiatives have brought about significant benefits to our taxpayers. The surplus of $86.9 million shown in the following tables is an accomplishment which we report with a great deal of pride.

As I move into the new role of Chairman of the Board of Directors, I would like to thank my fellow Directors on the Board for their support and direction. Serving Hon. Walter Paszkowski and his predecessors has been a pleasure, due to their businesslike approach and commitment to our industry.

My appreciation for the AFSC staff who worked so hard through so many changes is difficult to express in mere words. My sincere thanks goes to each of them and to the many colleagues within the Ministry who lent their support over the years.

And finally, my warmest welcome and best wishes to AFSC's new President and Managing Director, Brian Manning. I look forward to working with him in my new role as Chairman of the Board.

R. A. Splane
President and Managing Director

Summary of Operations

Highlight on Service

CUSTOMER SERVICE

The concept of the Point of Sale Transaction (POST), which speeds up the paperwork for our customers immeasurably, came from an insurance staff team in 1994. The team set two goals: first, to enable Insurance Administrators to enter directly the crops and options selected by the farmers into the computer, and to print personalized election letters. Second, to enable the Insurance Administrator to enter the farmer's seeded acres report into the computer, and print the Statement of Coverage and Premium immediately for the policyholder.

To test the new system, the Claresholm, Lacombe, Wainwright, Barrhead and Falher District Offices conducted a pilot project in 1995. Results were overwhelmingly positive: both our customers and front line staff were impressed. Policyholders told us that they loved the new, personalized forms, and that they helped them make better, faster decisions about the coverage they chose. Staff told us POST helps them do their jobs better, reducing errors and the amount of paperwork created.

Building on the success of the pilot project, POST was put into place across the province in 1996.

FIRST STOP SERVICE

AFSC continued its plan to move field offices together with our key business partners, AFRD and FCC, wherever feasible to do so. The objective is to make it easy for farmers to conduct as much agriculture business in one place as possible. This year, eight offices combined insurance, lending and AFRD services together. AFSC and FCC merged five offices together in joint farm lending services.

DEVELOPING A SAFETY NET

Developing new programs that can both fulfill the need to preserve farm viability and the governmental need for cost control, trade neutrality and national consistency is truly a daunting task. The Insurance Research and Program Development department and the Policy Secretariat of AFRD worked together in 1995 to design a program that, unlike its GRIP predecessor, would be designated "GATT Green," and would help sustain farm viability in the event of a disastrous decline in farm income. The Farm Income Disaster Program (FIDP) was developed in 1995, and introduced for the 1995 tax year.

Programs

CANADA-ALBERTA ALL-RISK CROP INSURANCE

The Canada-Alberta crop insurance program continues to be the major crop protection program in Alberta. The program includes acreage seeded to grains and oilseeds, hay and pasture crops, honey, grain corn, sugar beets, vegetables and a number of other specialty crops. Alberta insures 39 crops, and a multitude of varieties within that number.

Crop insurance covers farmers against production-related risks based on long-term average yields. Indemnities, when warranted, are paid at a pre-determined price for any shortfall in production that insured farmers sustain as a result of insurable natural perils. The pre-determined price, or "price option," is set annually before the crop season, and attempts to reflect the current year's market price as closely as possible.

All costs within the cost-sharing agreement are shared between producers and the two levels of government, with producers paying 50% of the premium and the remaining 50% plus administration costs shared equally between the federal and provincial governments.

Summary statistics showed an increase for 1995 in the program, with total premiums rising to $113.1 million from $87.9 million. This dramatic increase is due to the reintroduction of the hail endorsement, and to a lesser extent, the higher total coverage as a result of increased market prices. Total losses, which include all elements of the program (all-risk, hail, forage and hail endorsement) were $58.8 million, for a loss-to-premium ratio of 52 per cent. Grain and oilseeds acres insured dropped from 9.1 million last year to 8.3 million this year.

Highlights of Crop Insurance Operations

1995-96	Contracts	Acres (Millions)	$ Premiums ($ Millions)	Claims ($ Millions)
Crop	16,053	8.3	$ 86.1	$ 28.4
Forage	1,964	1.1	$ 3.5	$ 6.0
Hail Endorsement	10,039	5.2	$ 24.8	$ 20.3
Total			$114.4	$ 54.7

Forage insurance, an important component of all-risk insurance, was introduced to provide a production guarantee on forage crops grown in Alberta. Farmers may insure all of their hay or pasture acres at a specific production guarantee, for a pre-determined price. In 1995, forage losses of $6.0 million reflect the drought conditions afflicting parts of northeast Alberta in recent years. Participation dropped from 2,836 contracts last year to 1,964 this year.

HAIL INSURANCE

Hailstorms on the prairies are common, and many producers take advantage of affordable protection from this threat. Farmers may insure up to a maximum dollar coverage per acre, and losses are paid based on the percentage of damage that occurs. The hail program operates without government funding. Participation in the 1995 crop year reached 9,876 contracts, and the loss ratio was 83.2 per cent compared to 91.6 per cent last year.

REVENUE PROTECTION PLAN

In 1995, Alberta gave official notice to the federal government of its intention to exit the Gross Revenue Insurance Plan (GRIP). Producers were given an option to exit the program without penalty by April 30, 1995. By year-end, only 1,137 contracts remained, as the overwhelming majority of producers chose to exit the plan.

WATERFOWL AND WILDLIFE DAMAGE COMPENSATION

AFSC administers a program that may partly compensate producers for crops damaged by big game, upland game birds or waterfowl. No premiums are charged. The wildlife portion is funded by the Government of Alberta, and the waterfowl portion is funded jointly by the Government of Canada and the Government of Alberta.

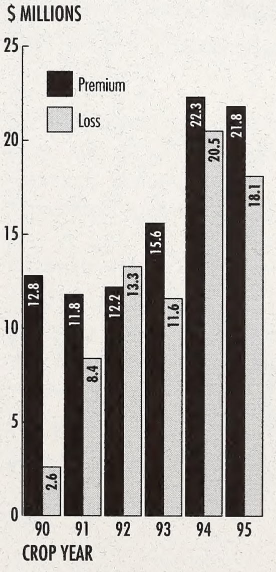
1995 crop year losses paid to farmers and ranchers for both programs was $923,144.

BEGINNING FARMER PROGRAM

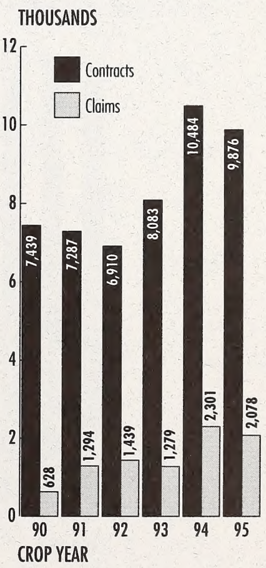
The Beginning Farmer Program is one of AFSC's core programs, providing fixed-rate, long-term loans for new entrants into farming. This program enables hundreds of farmers to get a healthy start in agriculture each year. Qualifying farmers pay an effective rate of 9 per cent, fixed for the life of the loan. During the first five years of the loan, borrowers are eligible for an incentive, which effectively reduces the interest rate to six per cent.

In 1995-96, beginning farmer loans increased from $65.4 million to $70.1 million. The number of loans authorized in 1995-96 was 778, virtually unchanged from 1994-95. The average loan size rose slightly, from $82,828 to $90,107, reflecting increasing land prices.

Premium & Loss
Straight Hail Insurance



Contracts & Claims by Crop Year
Straight Hail Insurance



OTHER FARM LENDING

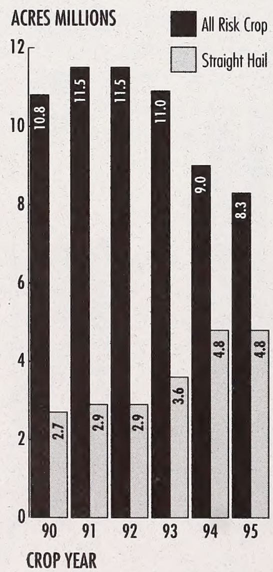
Other direct and guaranteed farm lending totalled $100.1 million, a drop from $123.0 million last year.

MEASURING LENDING PERFORMANCE

Banks and other financial institutions commonly evaluate their portfolios by assessing its level of arrears, or accounts that are behind in payments. AFSC's portfolio continues to be well-managed. The number of accounts in arrears greater than one year dropped to 1.5 per cent of total accounts, continuing an eight-year downward trend. The dollars of arrears compared to dollars in the portfolio increased from 1.32 per cent in 1995 to 1.55 per cent in 1996. Staff have worked closely with customers to prevent these arrears from developing into more serious situations.

Total properties for resale, another indicator of the strength of the loan portfolio, dropped from 13 quarter sections of land last year to 9 this year. The strong portfolio performance reflects AFSC's efforts to control costs by making judicious lending decisions, and by working closely with customers who are in arrears.

Acres Insured by Year



THE AGRIBUSINESS ECONOMY

AFSC recognizes its growing role in the financing of businesses that add value to agricultural products. Traditional agribusinesses and companies developing markets for the new, higher-value products in pharmaceuticals, "designer" foods and convenience foods all have found help at AFSC. Our clients are on the leading edge of market development. The spin-offs they create provide new market opportunities for agricultural producers, and more economic activity and jobs in rural Alberta.

The Commercial Financial Services division recorded $6.1million in new loans and guarantees in 1995-96. The total agribusiness loan portfolio at AFSC, including guarantees and the Canada-Alberta Partnership on Agrifood (CAPA) program, reached 198 accounts for a total of $45.6 million.

Bringing new sources of capital, both public and private, to new or expanding agribusinesses is part of being responsible to Alberta taxpayers. One facet of that approach in recent years has been to source credit through other lending agencies, to ensure that our clients have access to a wide array of financing options. To that end, AFSC became an agent of the federal Farm Credit Corporation in 1994. In 1995-96, $8.6 million in loans were sourced by AFSC for FCC.

Since its inception, AFSC has committed more than $360 million to encourage value-added processing in Alberta.

LOCAL OPPORTUNITY BONDS

Local Opportunity Bonds are a means for rural communities to get directly involved in funding new or expanding small businesses in their local areas. They offer a way for rural small businesses to raise capital from the public, often as an alternative to the stock market. Bonds are issued by AFSC after community and investor support is in place. In 1995-96, the first pilot project for the province's Local Opportunity Bond program was approved.

Corporate Business Plan Highlights

GOALS	STRATEGIES	RESULTS
Improve customer service and satisfaction	Improve staff efficiency Delegate appropriate responsibility and authority to field offices	Point of Sale Transaction (POST) system was introduced in all insurance field offices. Dramatically speeds up processing of customer information and gives immediate responses to customers. Reduces paperwork and gives faster service.
	Reduce number of on-farm inspections needed by having producers measure own yields (subject to audit)	Reduced administration and adjusting costs, due to fewer production measurements by AFSC.
	Revise coverage and premium option statements	Customers understand variable coverage options better.
	Provide a seeded acreage worksheet at election time to help farmers declare actual seeded acreage	Eliminated the inconvenience and time spent on mandatory fall yield measurements.
	Implement a year's lag in indexing which provides coverage levels to clients earlier	Reduced paperwork. Reduced cost of measuring and processing producers' crop yields.
	Develop AFRD/AFSC alliance in first stop service centres	7 more AFSC and/or AFRD functions were put closer together for better customer service.
	Set up an appeal process incorporating "natural justice" principles for dealing with disputes on insurance contracts	New appeal process set up.
	Investigate the feasibility of a low and high price option for crop insurance	Implementation of low and high price options for crop insurance in 1996.
	Make loan process more efficient	Customers may now choose own solicitor. Legal documents have been simplified. Paperwork for loan approvals has dropped. "Frontline" staff are making more decisions.
	Ensure efficient delivery of financial services to agribusinesses	Gained access to two new capital pools which are being managed by AFSC. Strengthened alliance with Farm Credit Corporation (FCC) and improved service to clients by offering diverse financial services. $8.6 million in new loans under FCC agreement. First Local Opportunity Bond application approved.

GOALS	STRATEGIES	RESULTS
Improve fiscal responsibility	Expand FCC alliance focusing on improved customer service	Four more offices of AFSC and FCC moved into common office space.
	Explore more effective benefits plans	Implemented flexible employee benefits plan to cap cost of medical/dental benefits plans and give employees more flexible and effective plan.
	Consider outsourcing payroll	Outsourced payroll processing for better service to staff and cost savings.
	Reduce duplication within government	Eliminated overlap and duplication in administering Disaster Assistance programs by deleting Transportation and Utilities involvement.
	Improve collection efficiency	Changed credit policy by moving deadline for cash discount and interest forward, to enable faster collection of insurance premiums.
	Complete an actuarial review of coverage and rate setting methods within the hail insurance program	Changed the rate setting method to provide more stability to premium rates following significant hail losses.
	Reduce the net cost of administration	Reduced administrative costs to 13% below budget.
	Improve loan portfolio performance	Accounts over 1 year in arrears decreased to 1.46% from 1.6%. Number of quarters for sale decreased to 9 from 13.
	Determine the impact of beginning farmer funding in Alberta	Developed the criteria for measuring the success and impact of Beginning Farmer Program in Alberta. Project is expected to be completed in 1996/97.
	Assist in the development of the Farm Income Disaster Program (FIDP)	Set the stage for farmers to accept a greater responsibility for risk management decisions on their farms while providing assistance when disastrous declines in income occur.
Participate in developing policy on agricultural finance and risk management issues	Participate in the National Review of Crop Insurance	Set the stage for 1997/98 changes to the core production risk management tool for agriculture crops in Alberta.
	Research potential improvements to wildlife compensation program	Wildlife compensation included in the crop insurance review. New brochure produced for the 1996 crop year.
	Develop a flood insurance program for farmers in the Pembina Flood Plain	Provided farmers in this unique area with a potential risk management alternative for their consideration.
Develop alliances that result in improved products and services for customers	Expand FCC alliance focusing on improved customer service	AFSC and FCC have merged offices in 5 farm lending pilot projects. Each office has an action plan to improve customer service, operational effectiveness, and increase business opportunities.

Summary of Lending Activity

	1995/96		1994/95		Accumulated Authorizations June'72 - March'96		Active and Outstanding March 31, 1996	
	No.	$MIL.	No.	$MIL.	No.	$MIL.	No.	$MIL.
Farm Direct Loans								
Beginning Farmer	778	70.1	790	65.4	14,752	1,560.5	9,574	738.8
Developing Farmer	7	0.7	11	1.2	172	17.0	119	10.1
Northwest Disaster	0	0.0	0	0.0	196	5.4	77	1.3
Western Disaster	0	0.0	0	0.0	322	10.7	154	3.6
Southeastern Disaster	0	0.0	0	0.0	833	67.9	640	41.0
Other	0	0.0	0	0.0	5,289	278.9	1,258	52.5
Subtotal	**785**	**70.8**	**801**	**66.6**	**21,564**	**1,940.4**	**11,822**	**847.3**
Farm Guarantees								
Specific Guaranteed Loans	2	0.6	1	0.1	1,954	87.7	23	2.7
Alberta Farm Development Loans	4,821	97.4	5,928	120.7	152,715	1,865.6	15,771	228.1
Farm Development Guaranteed Loans	0	0.0	0	0.0	431	17.4	2	0.1
Vendor Mortgage Loans	13	1.4	9	1.0	65	6.3	61	4.8
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	20	0.3
Subtotal	**4,836**	**99.4**	**5,938**	**121.8**	**155,165**	**1,977.0**	**15,877**	**236.0**
Total Farm	**5,621**	**170.2**	**6,739**	**188.4**	**176,729**	**3,917.0**	**27,699**	**1,083.3**
Commercial								
Direct Loans	20	5.3	27	4.9	332	135.7	113	24.2
Specific Guaranteed Loans	5	0.8	4	0.5	496	200.8	15	1.5
Canada-Alberta Partnership on Agri-food	0	0.0	25	5.3	69	17.4	67	15.4
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	2	0.1
Farm Credit Corporation Loans	7	8.6	-	-	7	8.6	-	-
Other	-	-	-	-	-	-	1	4.4
Subtotal	32	14.7	56	10.7	904	362.5	198	45.6
Corporate Grand Total	**5,653**	**184.9**	**6,795**	**199.1**	**177,633**	**4,279.9**	**27,897**	**1,128.9**

SUMMARY FOR CROP INSURANCE BY CROP YEAR

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Claims	Loss $,000	Loss/Premium Percent
1990	24,484	10,854	852,380	91,762	7,385	68,779	75.0
1991	24,721	11,511	734,162	79,510	7,825	33,040	41.6
1992	25,001	11,513	771,772	82,612	14,918	140,777	170.4
1993	23,061	10,982	827,351	93,240	8,546	57,939	62.1
1994	20,289	9,067	620,866	83,510	5,789	22,335	26.7
1995	16,053	8,293	664,939	86,078	4,549	28,378	33.0
TOTALS	133,609	62,220	$ 4,471,470	$ 516,712	49,012	$ 351,248	68.0

SUMMARY FOR REVENUE PROTECTION PLAN BY CROP YEAR

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/Premium Percent
1991	21,594	12,419	1,622,834	343,883	20,449	431,700	125.5
1992	22,454	12,891	1,661,182	368,541	21,360	493,517	133.9
1993	21,948	12,509	1,510,676	346,998	17,353	217,935	62.8
1994	20,904	11,631	1,209,076	237,446	9,331	38,470	16.2
1995	1,137	650	59,138	10,166	316	912	12.4
TOTALS	88,037	50,100	$ 6,062,906	$ 1,307,034	68,809	$ 1,182,884	90.5

SUMMARY FOR STRAIGHT HAIL BY CROP YEAR

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/Premium Percent
1990	7,439	2,698	200,315	12,842	628	2,585	20.1
1991	7,287	2,859	219,959	11,852	1,294	8,418	71.0
1992	6,910	2,886	233,438	12,183	1,439	13,276	109.0
1993	8,083	3,634	304,641	15,579	1,279	11,561	74.2
1994	10,484	4,795	443,130	22,343	2,301	20,467	91.6
1995	9,876	4,838	441,256	21,767	2,078	18,101	83.2
TOTALS	50,079	21,710	$ 1,842,739	$ 96,566	9,019	$ 74,408	77.1

* All statistics as of June 27, 1996

SUMMARY FOR HAIL ENDORSEMENT BY CROP YEAR

Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/Premium Percent
1990	19,817	8,958	713,000	44,563	2,146	11,959	26.8
1991	5,511	1,378	99,327	5,927	969	4,653	78.5
1992	3,836	907	72,869	4,106	591	3,359	81.8
1993	3,470	854	79,116	4,348	390	2,764	63.6
1994	0	0	0	0	0	0	
1995	10,039	5,166	445,610	24,826	2,412	20,315	81.8
TOTALS	42,673	17,263	$ 1,409,922	$ 83,770	6,508	$ 43,050	51.4

SUMMARY FOR FORAGE INSURANCE BY CROP YEAR

Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/Premium Percent
1990	8,024	* 962,968	99,166	19,843	5,027	27,500	138.6
1991	5,972	6,119,795	59,694	11,539	1,795	5,828	50.5
1992	5,405	4,890,755	54,557	10,810	3,330	18,013	166.6
1993	5,304	3,676,524	53,483	11,499	2,313	6,818	59.3
1994	2,836	1,430,882	22,381	5,367	856	1,229	22.9
1995	1,964	1,079,802	14,865	3,464	1,246	5,976	172.5
TOTALS	29,505	18,160,726	$ 304,146	$ 62,522	14,567	$ 65,364	104.5

* Recorded in a combination of Animal Units and Acres

WATERFOWL AND WILDLIFE DAMAGE COMPENSATION PROGRAM BY CROP YEAR

	Wildlife		Waterfowl		Total	
YEAR	Number of Losses	Dollar Losses	Number of Losses	Dollar Losses	Number of Losses	Dollar Losses
1992	142	$ 225,647	352	$ 766,523	494	$ 992,170
1993	113	210,941	265	725,163	378	936,104
1994	53	98,644	207	438,851	260	537,495
1995	242	450,571	261	472,573	503	923,144
Totals	550	$ 985,803	1,085	$ 2,403,110	1,635	$ 3,388,913

* All statistics as of June 27, 1996

Management's Responsibility for Financial Reporting

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with Canadian generally-accepted accounting principles, using methods appropriate for the industry in which the corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management depends upon internal accounting control systems to meet its responsibility for reliable and accurate reporting. These control systems are subject to periodic review by the corporation's internal auditors.

The Alberta Auditor General, the corporation's independent auditor, is responsible to express a professional opinion on the financial statements.

The Board of Directors Audit Committee, composed on non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Bob Splane

President and Managing Director

Dave Schurman, C.A.

Vice-President,
Finance and Administration

AGRICULTURE FINANCIAL SERVICES CORPORATION

Financial Statements

AS AT MARCH 31, 1996

Alberta Legislature
Office of the Auditor General

Auditor's Report

To the Board of Directors of the
Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 1996 and the statements of revenue, expense and surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General
Edmonton, Alberta
May 17, 1996

AGRICULTURE FINANCIAL SERVICES CORPORATION

Balance Sheet

As at March 31, 1996

	1996	1995
ASSETS		
Cash	$ 115,858,252	$ 51,305,578
Short-term investments (Note 6)	129,211,647	68,597,720
Accounts receivable (Note 7)	6,079,479	13,996,497
Due from Crop Reinsurance Fund of Canada for Alberta	–	41,075
Loans receivable (Note 8)	870,328,593	871,170,663
Property held for sale (Note 9)	1,433,695	2,362,915
Long-term investments (Note 6)	30,566,428	32,815,649
Other assets (Note 10)	4,366,666	4,025,000
Capital assets (Note 11)	4,503,158	4,821,517
	$ 1,162,347,918	$ 1,049,136,614
LIABILITIES AND SURPLUS		
Accounts payable and accrued liabilities (Note 12)	$ 25,484,798	$ 19,112,053
Estimated indemnities payable (Note 13)	93,456,337	12,477,267
Due to Province of Alberta (Note 14)	46,312,376	47,129,614
Due to Government of Canada (Note 15)	23,875,712	11,010,457
Due to Crop Reinsurance Fund of Alberta (Note 16)	28,927,288	12,915,002
Due to Crop Reinsurance Fund of Canada for Alberta (Note 16)	906,281	–
Allowance for losses on loan guarantees (Note 17)	4,998,000	5,342,000
Debentures payable (Note 18)	848,930,504	907,296,148
Deferred Canada-Alberta Partnership on Agri-food contribution (Note 15)	2,565,079	3,091,415
	1,075,456,375	1,018,373,956
Surplus	86,891,543	30,762,658
	$ 1,162,347,918	$ 1,049,136,614

Approved by the Board:

Bob Hymas, Director

R.A. Splane, Chair

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

Statement of Revenue, Expense and Surplus

FOR THE YEAR ENDED MARCH 31, 1996

	1996		1995
	Actual	Budget	Actual
	(Schedule 1)	(Note 4(a))	(As restated) (Note 3(a))
REVENUE:			
Premiums from insured persons	$ 79,375,023	$ 139,400,000	$ 143,759,394
Interest (Note 19)	70,826,347	69,902,820	70,842,655
Contribution from Province of Alberta (Note 20)	184,373,263	186,221,936	147,801,500
Contribution from Government of Canada (Note 15)	39,126,072	92,495,000	121,410,098
Investment income	14,700,940	4,650,000	7,402,970
Fees and other income	1,660,467	1,400,000	3,469,479
Amortization of loan discounts	8,800,600	12,849,865	3,122,429
	398,862,712	506,919,621	497,808,525
EXPENSE:			
Indemnities	164,774,945	297,087,550	69,907,345
Interest	84,645,128	87,155,000	94,587,293
Reinsurance	32,024,573	60,416,600	26,249,630
Disaster assistance interest benefit	16,320,780	17,100,000	18,652,463
Farm loan incentives	8,057,436	8,741,000	8,302,619
Administration, Schedule 2	31,129,147	29,139,240	30,704,458
Provision for doubtful accounts and for losses (Note 21)	(10,176,938)	9,216,466	(1,324,090)
	326,775,071	508,855,856	247,079,718
Excess (deficiency) of revenue over expense before recoveries	72,087,641	(1,936,235)	250,728,807
Net recoveries, Schedule 1	(18,231,169)	(2,824,397)	(203,465,553)
Surplus (deficit) for the year	53,856,472	$ (4,760,632)	47,263,254
Surplus (deficit) at beginning of year, as restated (Note 3(b))	33,035,071		(16,500,596)
Surplus at end of year	$ 86,891,543		$ 30,762,658

AGRICULTURE FINANCIAL SERVICES CORPORATION

Statement of Changes in Financial Position

FOR THE YEAR ENDED MARCH 31, 1996

		1996		1995
OPERATING ACTIVITIES:				
Surplus for the year	$	53,856,472	$	47,263,254
Charges not affecting cash		(17,972,302)		(2,994,168)
Changes in assets and liabilities relating to operations		92,257,566		144,560,396
Net cash from operating activities		128,141,736		188,829,482
INVESTING ACTIVITIES:				
Proceeds from repayments of loans receivable and sale of properties		96,318,553		101,608,663
Loan disbursements		(76,495,189)		(76,610,721)
Change in investments		(58,362,577)		(63,993,523)
Purchase of capital assets		(630,243)		(519,321)
Proceeds on disposal of other assets		275,000		1,206,905
Proceeds on disposal of capital assets		26,643		114,076
Net cash utilized by investing activities		(38,867,813)		(38,193,921)
FINANCING ACTIVITIES:				
Short-term borrowing from the Province of Alberta		32,406,240		–
Repayment of debenture principal		(57,127,489)		(54,501,082)
Repayment of short-term Provincial loan		–		(4,000,000)
Net cash utilized by financing activities		(24,721,249)		(58,501,082)
Net increase in cash from operating, investing and financing activities		64,552,674		92,134,479
Cash (bank indebtedness) at beginning of year		51,305,578		(40,828,901)
Cash at end of year	$	115,858,252	$	51,305,578

Notes To The Financial Statements

MARCH 31, 1996

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12.5, 1993.

The Corporation provides both lending and insurance services. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance and hail insurance. It also delivers other programs and services including loans to developing farmers, loan guarantees, business planning/counselling, the local opportunity bond program and the new farm income disaster program. The Corporation acts as Alberta agent for commercial lending for the federal Farm Credit Corporation.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Interest revenue on loans receivable is recognized as earned unless the ultimate collectibility of the loan is in doubt. When a loan is classified as doubtful, interest revenue is no longer recognized and, when applicable, an allowance is provided for expected losses on outstanding interest and principal balances.

Loan application fees are recognized when the applications are received and loan fees are recognized at the time of loan disbursement. Farm income disaster program application and administration fees are accrued based on the number of applications and the amount of estimated indemnities. Other fees are recorded when the Corporation completes the applicable work.

(b) Investments

Short-term investments are carried at the lower of cost or amortized cost and market value.

Long-term investments are carried at cost or amortized cost unless there is a permanent decline in the value of the investments, when the investments are written down to recognize the loss.

(c) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Computer equipment	5 years
Equipment and furniture	10 years
Vehicles	5 years

(d) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received.

(e) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated, but not specifically identified, losses. A specific provision is established on a loan-by-loan basis by discounting estimated future cash flows or fair value of security for loans where collection is in doubt. Since the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the fair value of security is used.

A general provision is based on historical experience and is intended to cover losses on loans and guarantees that have not yet been specifically identified.

The majority of the Corporation's loan portfolio is with beginning and developing agricultural operations. Selling prices for agricultural products are subject to significant fluctuation related to world wide inventories of various commodities and subsidies provided by various governments. Further, crop production can be severely eroded during adverse weather. Therefore, the Corporation's portfolio tends to be subject to higher risk than portfolios of other lenders. The Corporation mitigates this risk by providing significant general allowances for doubtful accounts.

(f) Loan Discounting

Loans made under the disaster assistance programs, Canada-Alberta Partnership on Agri-food program, and amounts previously deferred under the indexed deferral plan have been discounted because they involve significant concessionary elements. The amounts outstanding have been discounted to their estimated present value. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(g) Pension

Liabilities

Accounts payable and accrued liabilities include the portion of unfunded pension liability for the Public Service Pension Plan and the Management Employees Pension Plan incurred on behalf of some of the Corporation's employees.

Expense

Salaries and benefits include employer pension plan contributions made during the year, plus any increase (less any decrease) in the unfunded pension liability and its allocation to participants in the pension plans.

Note 3 Changes in Accounting Policy

(a) Interest Revenue

Previously the Corporation accrued interest revenue on loans receivable that were significantly in arrears. Interest revenue recognized on these loans was offset by a corresponding increase in the provision for doubtful accounts and for losses and, accordingly, the Corporation's excess of revenue over expense for the year was fairly stated. This practice was adopted because the Corporation's computer system was not capable of calculating interest both in accordance with loan agreements and also in accordance with generally accepted accounting principles. Effective April 1, 1995 the computer system was enhanced to enable the calculation of interest both in accordance with loan agreements and also in accordance with generally accepted accounting principles. This change has decreased both interest revenue and the provision for doubtful accounts by $2,917,907 during the current fiscal year.

This change has been applied retroactively and the 1995 figures have been restated as follows:

	As Previously Reported	Change	As Restated
Interest revenue	$ 78,494,663	$ (7,652,008)	$ 70,842,655
Fees and other income	–	3,469,479	3,469,479
Provision for doubtful accounts and for losses	2,858,439	(4,182,529)	(1,324,090)
Allowance for doubtful accounts - loans receivable	40,798,546	(3,453,148)	37,345,398
Allowance for doubtful accounts - property held for sale	2,900,000	(729,381)	2,170,619

(b) Loans Receivable

As a result of a change in generally accepted accounting principles, the Corporation changed its accounting policy to provide for the discounting of future cash flows on loans that are significantly in arrears. Previously, these cash flows were not discounted. Effective April 1, 1995, the loans receivable figure was increased by $2,499,981 and the property held for sale figure was decreased by $227,568 to reflect this change in policy.

This change was applied retroactively without restatement, resulting in a $2,272,413 increase in the surplus at April 1, 1995 from $30,762,658 to $33,035,071. Prior periods have not been restated as the related adjustments for a particular year are not determinable. The effect of the change on the current year's results is also not determinable.

Note 4 Financial Structure

(a) The budget as shown in the statement of revenue, expense and surplus was approved by the Board of Directors on January 26, 1996 and reflects contributions by the Province of Alberta authorized through the Legislative Assembly.

(b) Insurance

The hail insurance program is entirely funded by producers. The farm income disaster program is funded by the Province and producers. Crop insurance, revenue protection and wildlife programs are funded according to the cost-sharing agreements between the Province of Alberta and the Government of Canada which provide:

(i) for contributions to be made by the Government of Canada and the Province of Alberta matching 50% of the crop insurance premiums collected from insured persons;

(ii) for payments to be made to the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta. Payments to each reinsurance fund are equal to 15% of the total of crop insurance premiums collected and matching amounts received or receivable from the Government of Canada and the Province of Alberta;

(iii) for crop indemnities in excess of crop insurance reserves to be drawn from the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta, in accordance with a formula set out in the agreement;

(iv) for any crop insurance surplus for a fiscal year to be allocated to the Crop Reinsurance Fund of Alberta and/or the Crop Reinsurance Fund of Canada for Alberta if there is a deficit in either Fund, in accordance with a formula set out in the agreement;

(v) for matching contributions covering administrative costs to be made by the Government of Canada and the Province of Alberta;

(vi) for contributions to be made by the Government of Canada at 41.67%, and the Province of Alberta at 25%, of total premiums for the revenue protection program;

(vii) for revenue protection indemnities in excess of revenue for a fiscal year to be funded by an advance; 65% from the Government of Canada and 35% from the Province of Alberta. The advances plus interest will be repaid when the revenue protection program is in a surplus position. Upon termination of the program, any deficit (excluding the administration surplus) will be funded 65% from the Government of Canada and 35% from the Province of Alberta. Upon termination of the program, any surplus (excluding the administration surplus) will be refunded in proportion to premium contributions. The program was terminated at the end of the 1995 crop year and these financial statements reflect the distribution of the surplus. The distribution will be finalized after the final indemnity payments are issued.

(c) Lending

(i) The Corporation's loans are funded by borrowing from the General Revenue Fund. In prior years, loans were funded through debentures issued to the Alberta Heritage Savings Trust Fund. The Corporation's operations are funded by contributions from the General Revenue Fund of the Province of Alberta through the Department of Agriculture, Food and Rural Development for operations under the Agriculture Financial Services Act, and through the Department of Transportation and Utilities for operations under disaster assistance programs. The Canada-Alberta partnership on agri-food is funded by the Province of Alberta and the Government of Canada.

(ii) Certain office accommodation and support costs, totalling approximately $2,300,000 (1995 $2,560,000) are provided by the Departments of Agriculture, Food and Rural Development and Public Works, Supply and Services, and accordingly, these costs are not reflected in these financial statements.

Note 5 Loan Programs and Repayment Options

(a) Beginning Farmer Program

This program provides loans to eligible beginning farmers. Loans made under this program entitle borrowers, as long as certain conditions are met, to an incentive equal to 3% of outstanding principal over each of the first five years of the loan. Beginning farmer loans are made for terms of up to 20 years with interest at 9% and are secured by land and other farm assets.

(b) Alberta Farm Development Loans

Alberta farm development loans are issued by financial institutions to provide short and medium term financing for producers of agricultural products in Alberta. These loans can be for a maximum of $100,000 per individual partnership or company. The repayment terms are for periods of 20 years or less and interest rates equal to one of the following:

- lender's prime rate plus 1% for loans up to 10 years with variable rates; or
- lender's prime rate plus 1 1/2% for loans over 10 years, and for fixed rate loans.

The Corporation has negotiated three year agreements, since 1973, with the financial institutions, to guarantee up to 90% of individual loans and up to 10% of the total loans issued by the institution in any three year period (see Note 17).

(c) Loan Guarantees

The Corporation guarantees certain farm and agri-business loans made by other financial institutions and vendors in Alberta. The Province of Alberta indemnifies the Corporation for any losses that might be incurred on loan guarantees (see Note 17).

(d) Disaster Assistance Programs

In addition to programs offered under the Agriculture Financial Services Act, the Corporation also administers three disaster assistance programs funded through the Department of Transportation and Utilities. The programs were used to provide disaster loans, from 1990 to 1993, with non-interest bearing terms for two or five year periods. Alternatively, certain eligible borrowers could receive funds equivalent to the interest free benefit of a disaster loan. The cost of these programs is reimbursed by the Department of Transportation and Utilities, and its contribution is reflected in the statement of revenue, expense and surplus.

(e) Canada-Alberta Partnership on Agri-food

This program provides financing to help stimulate private sector investment in the agriculture and food processing industry in Alberta. The program provides loans for eligible projects, which are non-interest bearing for a maximum of five years (see also Note 15(b)).

(f) Indexed Deferral Plan

Prior to March 31, 1993, the indexed deferral plan allowed for the deferral of certain payments due on loans where that year's commodity price index was less than a 10-year average for the index. The terms of the deferral require that in years where the current commodity index is greater than the 10-year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

Note 6 Investments

	1996		1995	
	Short-term	Long-term	Short-term	Long-term
Bonds and debentures:				
Government of Canada, direct and guaranteed	$ 76,986,356	$ 9,334,354	$ 51,464,553	$ 11,551,525
Province of Alberta	11,918,629	7,477,656	6,119,433	7,467,463
Other provincial direct and guaranteed	36,917,394	12,968,554	7,713,162	13,007,505
	125,822,379	29,780,564	65,297,148	32,026,493
Accrued interest	3,389,268	785,864	3,300,572	789,156
	$ 129,211,647	$ 30,566,428	$ 68,597,720	$ 32,815,649
Approximate market value at March 31 (excluding accrued interest)	$ 127,660,070	$ 29,933,055	$ 64,709,600	$ 30,070,118

Short-term investments are recorded at amortized cost as this approximates market value.

Note 7 Accounts Receivable

	1996	1995
Premiums from insured persons:		
Crop insurance program	$ 2,664,607	$ 4,073,137
Hail insurance program	961,556	1,478,555
Revenue protection program	518,009	3,997,649
Farm income disaster program fees	1,112,400	–
Recoveries, revenue protection program	1,087,909	5,118,348
Other	113,455	234,780
	6,457,936	14,902,469
Less allowance for doubtful accounts (Note 21)	(378,457)	(905,972)
	$ 6,079,479	$ 13,996,497

Note 8 Loans Receivable

Assuming that options to renew will be exercised, loans are repayable in instalments due as follows:

	1996	1995 (Restated) (Note 3(a))
Arrears of principal and interest	$ 11,487,714	$ 13,225,511
Prepaid balances	(19,056,780)	(20,487,339)
Principal due in:		
Year(s) 1	64,115,217	55,706,233
2	62,440,337	63,164,337
3	63,511,134	60,989,171
4	65,365,695	62,429,649
5	66,476,143	63,953,183
Year(s) 6-10	285,431,968	290,178,406
Year(s) over 10	255,953,585	282,583,290
Amounts deferred under the Indexed Deferral Plan	31,584,507	38,553,060
	887,309,520	910,295,501
Add accrued interest	32,932,131	33,288,860
	920,241,651	943,584,361
Less allowance for doubtful accounts (Note 21)	(24,013,669)	(37,345,398)
Less accrued incentives	(4,255,452)	(4,457,729)
Less loan discounts	(21,643,937)	(30,610,571)
	$ 870,328,593	$ 871,170,663

Included in the above are non-interest bearing loans which, before discounting, have principal amounts outstanding of:

	1996	1995
Disaster assistance programs	$ 33,419,785	$ 40,833,933
Indexed deferral plan	31,584,507	38,553,060
Canada-Alberta partnership on agri-food	15,289,067	15,794,961
	$ 80,293,359	$ 95,181,954

The allowance for doubtful accounts of $24,013,669 includes a specific allowance of $12,927,669 on loans outstanding of $47,915,972, excluding unamortized loan discount.

Note 9 Property Held for Sale

Property, consisting mainly of land, has been acquired as a result of foreclosures, quit claims and other actions.

	1996	1995 (Restated) (Note 3(a))
Cost of property	$ 4,187,779	$ 4,533,534
Less allowance for losses on realization (Note 21)	(2,754,084)	(2,170,619)
Estimated net realizable value	$ 1,433,695	$ 2,362,915

The allowance for losses on realization of $2,754,084 includes a specific allowance of $1,693,303 on property balances outstanding of $4,060,830.

Note 10 Other Assets

	1996	1995
Unlisted preferred shares	$ 4,366,666	$ 4,275,000
Less allowance for losses on realization (Note 21)	–	(250,000)
	$ 4,366,666	$ 4,025,000

Note 11 Capital Assets

	1996			1995
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 115,000	$ -	$ 115,000	$ 115,000
Building	2,918,757	(353,815)	2,564,942	2,681,692
Computer equipment	4,630,607	(3,590,511)	1,040,096	1,098,788
Equipment and furniture	1,074,923	(583,242)	491,681	580,412
Vehicles	700,338	(408,899)	291,439	345,625
	$ 9,439,625	$ (4,936,467)	$ 4,503,158	$ 4,821,517

Note 12 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities includes an unfunded pension liability. The Corporation participates with other employers in two defined benefit pension plans. These plans provide pensions for some of the Corporation's employees based on length of service and earnings.

The Corporation had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1996	1995
Public Service Pension Plan	$ 1,089,855	$ 1,053,000
Management Employees Pension Plan	827,892	793,000
	$ 1,917,747	$ 1,846,000

The total unfunded pension liability for each plan as at March 31, 1996 was determined by actuarial valuations, as at December 31, 1993 for the Public Service plan and as at December 31, 1994 for the Management Employees plan, both extrapolated to March 31, 1996.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Corporation's portion of the liability was based on the Corporation's percentage of the total pensionable payroll of all employers in each Plan.

Note 13 Estimated Indemnities Payable

	1996	1995
Farm income disaster program	$ 91,000,000	$ –
Crop insurance	1,642,140	293,505
Wildlife	460,214	68,000
Revenue protection	353,983	12,115,762
	$ 93,456,337	$ 12,477,267

Estimated indemnities payable consist of known liabilities payable at the year end and estimated additional liabilities for indemnities based on historical information about the relationships between the number of claim applications received and the average amount of each application.

The Corporation implemented the farm income disaster program for the 1995 crop year. The Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. If the program margin falls below 70% of the average margin for the previous three years, an indemnity may be payable. Applications can be submitted for the 1995 tax year until July 31, 1996 and indemnities will be paid during the 1996-97 fiscal year.

The Corporation has recorded a liability of $91 million as at March 31, 1996 to provide for estimated indemnities payable under the Program for the 1995 crop year. Since this is the Program's initial year, historical information about the nature of potential farm business applicants is not available. Therefore, the actual indemnities to be paid may be significantly more or less than the estimated liability of $91 million. Indemnities payable under the Program are limited to a maximum of $200 million per year.

Note 14 Due to Province of Alberta

		1996		1995
Notes and interest payable	$	32,651,629	$	3,829,006
Surplus recovery		15,009,025		10,451,233
Disaster assistance		(1,159,342)		(1,337,516)
Unexpended grants and other		(188,936)		34,186,891
	$	46,312,376	$	47,129,614

Note 15 Government of Canada Funding

(a) Due to Government of Canada

		1996		1995
Surplus recovery	$	25,017,044	$	17,420,116
Canada-Alberta Partnership on Agri-food		4,125,913		1,324,126
Premiums and administration expense receivable		(5,267,245)		(7,851,071)
Interest payable		-		117,286
	$	23,875,712	$	11,010,457

(b) Deferred Canada-Alberta Partnership on Agri-food Contribution

The Corporation delivered the Canada-Alberta Partnership on Agri-food program which was funded equally by the Governments of Alberta and Canada. The amount shown on Note 15(a) does not include the deferred Canada-Alberta Partnership on Agri-food contribution.

One-half of the Government of Canada's share of the funding is repayable to Canada by September 30, 1996 and is included in the total Due to Government of Canada figure shown in Note 15(a). The other half of the Government of Canada's funding is used to defray the current and future administration and interest costs of the program. The unexpended portion of this contribution is shown as a deferred contribution on the balance sheet and is comprised of the following:

		1996		1995
Funding by the Government of Canada	$	635,875	$	4,156,944
Less one half repayable		317,938		2,078,472
Contribution by the Government of Canada		317,937		2,078,472
Less expenses for the year		844,273		563,621
(Decrease) increase in deferred contribution for the year		(526,336)		1,514,851
Deferred contribution at beginning of year		3,091,415		1,576,564
Deferred contribution at end of year	$	2,565,079	$	3,091,415

Note 16 Crop Reinsurance Funds

The Crop Reinsurance Fund of Alberta is held by the Province of Alberta. Contributions by the Corporation to this Fund, calculated based on a portion of eligible premiums received, are accumulated as a liability of the Corporation.

The Crop Reinsurance Fund of Canada for Alberta is held by the Government of Canada. Contributions by the Corporation to this Fund, also calculated based on a portion of eligible premiums received, are paid periodically. Amounts due from or to this Fund are included as a receivable or liability of the Corporation.

The balances in these funds, as at March 31, are as follows:

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	1996	1995	1996	1995
Opening surplus	$ 12,915,002	$ 22,366	$ 25,369,516	$ 12,476,880
Current year contributions	16,012,286	12,892,636	16,012,287	12,892,636
	28,927,288	12,915,002	41,381,803	25,369,516
Recoveries to/from the Corporation	-	-	-	-
Closing surplus	$ 28,927,288	$ 12,915,002	$ 41,381,803	$ 25,369,516

Note 17 Contingencies and Commitments

	1996	1995
Loan guarantees	$ 65,017,828	$ 64,360,136
Less allowance for losses (Note 21)	(4,998,000)	(5,342,000)
Total contingencies	$ 60,019,828	$ 59,018,136
Estimated farm loan incentives	$ 25,921,355	$ 25,330,889
Approved, undisbursed loans	19,438,563	19,078,304
Total commitments	$ 45,359,918	$ 44,409,193

Contingencies under the Alberta farm development loans program comprise $55,814,062 of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 1996 were $230,903,139 (1995 $245,234,400).

Note 18 Debentures Payable

Debentures payable to the Province of Alberta are comprised of the following:

Series	Year of Maturity	Weighted Average Interest Rate	March 31 Principal Outstanding 1996	1995
A	2004	9.94%	$ 73,100,000	$ 81,100,000
B	2004-2005	9.13%	20,000,000	22,000,000
C	2005	8.53%	44,000,000	47,200,000
D	2006	9.34%	73,900,000	79,100,000
E	2006-2007	9.57%	120,720,000	128,720,000
F	2007-2009	8.49%	179,450,000	190,450,000
G	2009-2010	9.56%	68,870,000	72,750,000
H	2010-2011	8.50%	81,750,000	85,020,000
I	2012-2013	8.72%	33,210,000	34,440,000
J	2009	7.93%	39,259,354	40,939,506
K	2011	8.16%	35,984,951	36,957,938
L	2001-2002	10.12%	66,913,502	75,607,852
			837,157,807	894,285,296
Accrued interest			11,772,697	13,010,852
			$ 848,930,504	$ 907,296,148

Interest rates on debentures are fixed for five-year periods. Repayments are by semi-annual payments over the life of the debentures.

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	1997	$ 60,858,798
	1998	$ 64,035,683
	1999	$ 67,709,916
	2000	$ 72,164,477
	2001	$ 75,599,736

Note 19 Interest Revenue

The Corporation does not recognize interest revenue on loans receivable where collection of the interest is in doubt. The amount of unrecognized interest revenue for 1996 is $2,917,907 (1995 $4,182,529).

Note 20 Contribution from Province of Alberta

Contribution from Province of Alberta includes operating grants from the Departments of Agriculture, Food and Rural Development and Transportation and Utilities. The Department of Transportation and Utilities contribution is comprised of the following:

	1996	1995
Disaster assistance programs interest benefits	$ 16,320,780	$ 18,652,463
Interest expense	5,466,903	6,575,403
Administration expense	332,101	368,406
Provision for doubtful accounts and losses on realization of assets	76,545	84,198
Less interest and other revenue	(1,335,066)	(1,679,035)
Department of Transportation and Utilities contribution	$ 20,861,263	$ 24,001,435

Note 21 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 7)	Loans Receivable (Note 8)	Property Held for Sale (Note 9)	Other Assets (Note 10)	Loan Guarantees (Note 17)	Total
Allowances at March 31, 1994	$ 517,951	$ 40,149,658	$ 4,415,500	$ 16,350,000	$ 4,931,000	$ 66,364,109
Transfers to property for sale in 1994-95	-	(1,397,900)	1,397,900	-	-	-
Provision for 1994-95, as restated (Note 3(a))	393,749	1,457,276	(1,029,210)	(2,556,905)	411,000	(1,324,090)
Write-offs in 1994-95	(5,728)	(2,863,636)	(2,613,571)	(13,543,095)	-	(19,026,030)
Allowances at March 31, 1995	905,972	37,345,398	2,170,619	250,000	5,342,000	46,013,989
Allowances adjustment (Note 3(b))	-	(2,499,981)	227,568	-	-	(2,272,413)
Revised opening allowances April 1, 1995	905,972	34,845,417	2,398,187	250,000	5,342,000	43,741,576
Transfers to property for sale in 1995-96	-	(779,689)	779,689	-	-	-
Provision for 1995-96	(148,168)	(9,325,835)	(108,935)	(250,000)	(344,000)	(10,176,938)
Write-offs in 1995-96	(379,347)	(726,224)	(314,857)	-	-	(1,420,428)
Allowances at March 31, 1996	$ 378,457	$ 24,013,669	$ 2,754,084	$ -	$ 4,998,000	$ 32,144,210

Note 22 Comparative Figures

The 1995 figures have been reclassified and restated where necessary to conform to 1996 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION

Schedule of Revenue, Expense and Surplus

FOR THE YEAR ENDED MARCH 31, 1996

	1996							1995
	Lending	Crop Insurance	Farm Income Disaster	Hail Insurance	Revenue Protection	Wildlife Compensation	Total	Total (Restated) (Note 3(a))
REVENUE:								
Premiums from insured persons	$ -	$ 56,566,064	$ -	$ 19,407,220	$ 3,401,739	$ -	$ 79,375,023	$ 143,759,394
Interest (Note 19)	70,210,740	352,827	-	119,947	142,833	-	70,826,347	70,842,655
Contribution from Province of Alberta (Note 20)	53,060,292	36,423,100	91,282,401	-	2,834,631	772,839	184,373,263	147,801,500
Contribution from Government of Canada (Note 15)	844,273	33,376,078	-	-	4,410,875	494,846	39,126,072	121,410,098
Investment income	830,617	5,808,075	27,681	2,517,058	5,472,557	44,952	14,700,940	7,402,970
Fees and other income	1,250,143	22,679	1,112,400	409,500	(1,145,807)	11,552	1,660,467	3,469,479
Amortization of loan discounts	8,800,600	-	-	-	-	-	8,800,600	3,122,429
	134,996,665	132,548,823	92,422,482	22,453,725	15,116,828	1,324,189	398,862,712	497,808,525
EXPENSE:								
Indemnities	-	58,859,284	91,000,000	18,101,009	(4,331,783)	1,146,435	164,774,945	69,907,345
Interest	84,659,548	-	-	-	(14,420)	-	84,645,128	94,587,293
Reinsurance	-	32,024,573	-	-	-	-	32,024,573	26,249,630
Disaster assistance interest benefit	16,320,780	-	-	-	-	-	16,320,780	18,652,463
Farm loan incentives	8,057,436	-	-	-	-	-	8,057,436	8,302,619
Administration, Schedule 2	10,763,441	13,473,486	1,430,067	4,323,618	959,671	178,864	31,129,147	30,704,458
Provision for doubtful accounts and for losses (Note 21)	(10,028,770)	4,644	-	30,418	(183,230)	-	(10,176,938)	(1,324,090)
	109,772,435	104,361,987	92,430,067	22,455,045	(3,569,762)	1,325,299	326,775,071	247,079,718
Excess (deficiency) of revenue over expense before recoveries	25,224,230	28,186,836	(7,585)	(1,320)	18,686,590	(1,110)	72,087,641	250,728,807
Recoverable by Government of Canada	-	-	-	-	(7,596,928)	-	(7,596,928)	(89,048,931)
Recoverable by Province of Alberta	-	-	-	-	(4,557,792)	-	(4,557,792)	(100,483,038)
Recoverable by producers	-	-	-	-	(6,076,449)	-	(6,076,449)	(13,933,584)
	-	-	-	-	(18,231,169)	-	(18,231,169)	(203,465,553)
Surplus (deficit) for the year	25,224,230	28,186,836	(7,585)	(1,320)	455,421	(1,110)	53,856,472	47,263,254
Surplus (deficit) at beginning of year, as restated (Note 3(b))	(53,639,566)	50,307,920	-	36,173,310	192,238	1,169	33,035,071	(16,500,596)
Surplus (deficit) at end of year	$ (28,415,336)	$ 78,494,756	$ (7,585)	$ 36,171,990	$ 647,659	$ 59	$ 86,891,543	$ 30,762,658

AGRICULTURE FINANCIAL SERVICES CORPORATION

Schedule of Administration Expense

FOR THE YEAR ENDED MARCH 31, 1996

	1996							1995
	Lending	Crop Insurance	Farm Income Disaster	Hail Insurance	Revenue Protection	Wildlife Compensation	Total	Total
Salaries and benefits	$ 7,479,101	$ 5,458,949	$ 632,728	$ 811,552	$ 284,527	$ 66,169	$ 14,733,026	$ 14,821,814
Contracted services	1,346,187	1,408,324	499,746	216,721	73,404	17,071	3,561,453	1,723,802
Adjusters' wages and benefits	-	2,273,620	-	271,318	251,658	45,168	2,841,764	3,190,423
Travel and automobile	278,652	1,600,476	37,029	204,900	112,877	20,822	2,254,756	2,459,899
Hail agents' commissions	-	-	-	1,927,428	-	-	1,927,428	1,899,263
Office accommodation costs	111,394	648,732	45,676	363,946	33,805	7,862	1,211,415	1,149,520
Amortization of capital assets	341,141	346,638	30,934	163,840	31,264	4,152	917,969	952,189
Data processing	360,752	297,569	47,748	44,004	15,510	3,607	769,190	1,154,562
Stationery supplies	229,102	384,715	33,334	67,507	32,294	4,021	750,973	1,100,530
Equipment, rental and maintenance	195,139	160,796	17,031	23,778	8,381	1,949	407,074	336,037
Postage and freight	60,288	207,503	15,748	32,033	10,807	2,513	328,892	316,595
Training, meetings, seminars, conferences	114,559	124,483	23,151	21,607	6,364	1,480	291,644	185,780
Professional services	41,817	129,830	7,566	48,788	56,586	1,233	285,820	296,581
Advertising	38,170	70,386	22,997	80,218	11,305	276	223,352	319,293
Telecommunications	63,369	97,773	7,616	14,411	6,230	1,304	190,703	177,895
Directors' fees and expenses	71,877	59,298	5,523	8,769	3,091	719	149,277	151,126
Collection commissions	4,360	96,047	464	16,617	15,091	65	132,644	245,490
Grain grading	-	75,840	-	-	4,783	-	80,623	137,462
Bonding and insurance	25,126	21,121	1,960	4,498	1,101	256	54,062	58,531
Bank charges	2,407	11,386	816	1,683	593	197	17,082	27,666
1996 Totals	$ 10,763,441	$ 13,473,486	$ 1,430,067	$ 4,323,618	$ 959,671	$ 178,864	$ 31,129,147	
1995 Totals	$ 11,012,683	$ 7,604,390	$ -	$ 4,893,218	$ 7,108,257	$ 85,910		$ 30,704,458

AGRICULTURE FINANCIAL SERVICES CORPORATION

Schedule of Salaries and Benefits

FOR THE YEAR ENDED MARCH 31, 1996

	1996				1995	
	Number of Individuals	Salary and Wages [1]	Benefits and Allowances [2]	Total	Number of Individuals	Total
Chair	1	$ 28,233	$ 672	$ 28,905	1	$ 26,451
Board members	8	71,715	871	72,586	8	71,762
Directors' fees[3]	9	$ 99,948	$ 1,543	$ 101,491	9	$ 98,213
President and Managing Director	1	$ 97,550	$ 44,951 [4]	$ 142,501	1	$ 123,530
Vice President, Finance and Administration	1	87,502	15,392	102,894	1	105,953
Vice President, Insurance Operations	1	69,480	18,257	87,737	1	84,532
Vice President, Lending Operations	1	72,701	16,662	89,363	1	87,448
Vice President, Research and Program Development	1	71,127	11,379	82,506	1	81,644
Other management employees (average 1996 $72,734, 1995 $71,650)	21 [5]	1,265,490	261,918	1,527,408	21 [5]	1,504,666
Other salaried staff (average 1996 $42,615, 1995 $39,943)	250 [5]	8,919,107	1,734,589	10,653,696	270 [5]	10,784,746
Non-salaried staff		939,920	160,633	1,100,553		1,306,137
Subtotal		11,522,877	2,263,781	13,786,658		14,078,656
Retiring allowances		-	154,546	154,546		341,689
Unfunded pension costs		-	71,747	71,747		181,000
Relocation costs		-	299,260	299,260		-
Productivity Plus awards		305,000	-	305,000		-
Vacation pay accruals		-	115,815	115,815		220,469
Salaries and benefits		$ 11,827,877	$ 2,905,149	$ 14,733,026		$ 14,821,814
Adjusters' wages and benefits		$ 2,404,536	$ 437,238	$ 2,841,764		$ 3,190,423

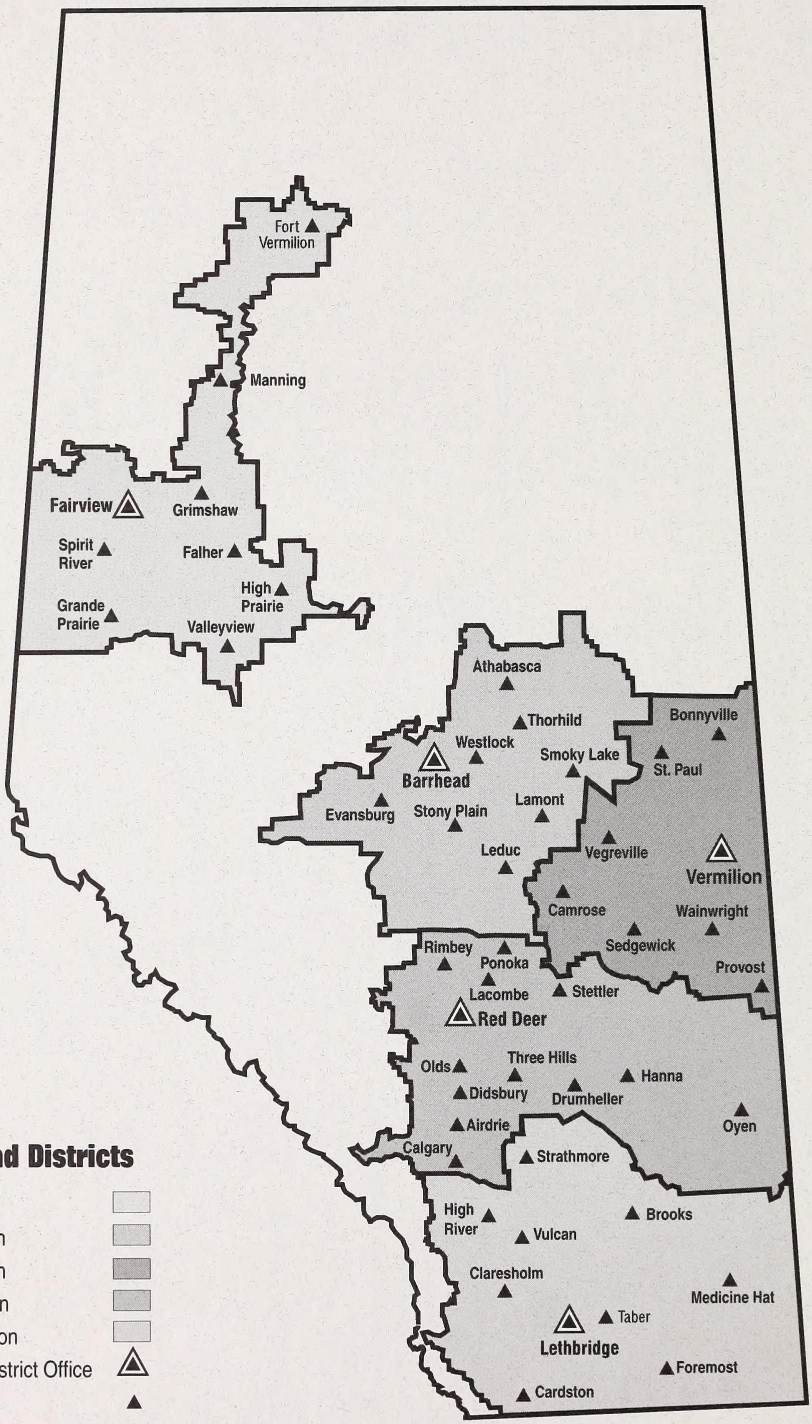
(1) Salary and wages include fees for Chair and Board members and regular base pay and overtime for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, dental coverage, group life insurance, pensions, unemployment insurance, accidental disability and dismemberment insurance, long-term disability, travel and accident insurance, living allowance, professional memberships and vacation payouts. Employer pension costs are included in benefits and allowances. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.

(3) Directors' fees of $101,491 (1995 $98,213) shown above plus expenses of $47,786 (1995 $52,913) for a total of $149,277 (1995 $151,126) are shown in Schedule 2 as Directors fees and expenses.

(4) Benefits and allowances include $18,350 in vacation payouts.

(5) Number of individuals is stated in terms of full-time equivalents.



AFSC Regions and Districts

- Fairview Region
- Barrhead Region
- Vermilion Region
- Red Deer Region
- Lethbridge Region
- Regional and District Office
- District Office

Printed on Recycled Paper